

Investment Guarantee *Guide*



MULTILATERAL INVESTMENT GUARANTEE AGENCY
WORLD BANK GROUP

MIGA: Bringing Clients Unique Strengths

The Multilateral Investment Guarantee Agency (MIGA) is a member of the World Bank Group. Its purpose is to promote foreign direct investment by providing political risk insurance (guarantees) to investors and lenders, and by helping emerging economies attract private investment.

MIGA's unique strengths derive from its structure as an international organization whose shareholders include most countries in the world. This enables the agency to provide an umbrella of deterrence against government actions that could disrupt investments, and allows it to influence the resolution of potential disputes—and ultimately enhance investor confidence.

The agency actively cooperates with public and private political risk insurers through coinsurance and reinsurance arrangements for joint coverage of eligible investment projects. These collaborative efforts significantly increase available insurance capacity for applicants seeking to expand their businesses in developing countries. MIGA can act as the arranger for a project's total insurance requirements.

What is eligible?

INVESTMENTS

MIGA can guarantee new, cross-border investments, as well as investments associated with the expansion, modernization, or financial restructuring of existing projects, and acquisitions involving privatization of state enterprises. Investments should contribute to host country development objectives and be financially, economically, and environmentally sound. Investments must be made in a developing country that is a member of MIGA.

Eligible forms of investment include equity, shareholder loans, and loan guaranties issued by equity holders, provided the loans and loan guaranties have terms of at least three years. Loans to unrelated borrowers can be guaranteed, provided an eligible shareholder registers its investment with MIGA. Other eligible investments include, but are not limited to, technical assistance, management contracts, leases, and franchising and licensing agreements, provided their contractual commitments have terms of at least three years and the remuneration of the investor is tied to a large extent to the project's operating results. Sponsors are encouraged to discuss their investment needs with MIGA.

APPLICANTS

An eligible applicant must be a national of a member country other than the country in which the investment is to be made. In certain cases, MIGA may also insure an investment made by a national of a host country, provided the funds originate from outside the host country and the host government specifically approves the investment. Corporations or financial institutions are eligible for coverage if they are either incorporated in and have their principal place of business in a member country or if they are majority-owned by nationals of member countries. State-owned corporations are also eligible if they operate on a commercial basis.

What political risks are covered?

CURRENCY INCONVERTIBILITY AND TRANSFER RESTRICTION

Protects against losses arising from an investor's inability to convert local currency (capital, interest, principal, profits, royalties, and other remittances) into foreign exchange for transfer outside the host country. The coverage also insures against excessive delays in acquiring foreign exchange due to host government action or failure to act. Currency depreciation is not covered. On receipt of the blocked currency from an investor, MIGA pays compensation in the currency specified in the contract of guarantee.

EXPROPRIATION

Protects against losses arising from host government actions that may reduce or eliminate ownership of, control over, or rights to the insured investment. In addition to outright nationalization and confiscation, "creeping" expropriation—a series of acts that, over time, have an expropriatory effect—is also covered. Coverage is available on a limited basis for partial expropriation (e.g., confiscation of funds or tangible assets). Bona fide, non-discriminatory measures by the host government in the exercise of legitimate regulatory authority are not considered to be expropriatory.

For total expropriation of equity investments, MIGA pays the net book value of the insured investment. For expropriation of funds, MIGA pays the insured portion of the blocked funds. For loans and loan guaranties, MIGA can insure the outstanding principal and any accrued and unpaid interest. Compensation will be paid upon assignment of the investor's interest in the expropriated investment (e.g., equity shares or interest in a loan agreement) to MIGA.

WAR AND CIVIL DISTURBANCE

Protects against loss from, damage to, or the destruction or disappearance of, tangible assets caused by politically motivated acts of war or civil disturbance in the host country, including revolution, insurrection, coups d'état, sabotage, and terrorism. War and civil disturbance coverage also extends to events that, for a period set forth in the contract of guarantee, result in an interruption of project operations essential to overall project financial viability. Business interruption coverage is effective when the investment is considered a total loss; at that point, MIGA will pay the book value of the total insured equity investment.

For equity investments, MIGA will pay the investor's share of the least of the book value of the assets, their replacement cost, and the cost of repair of damaged assets. For loans and loan guaranties, MIGA will pay the insured portion of the principal and interest payments in default as a direct result of damage to the assets of the project caused by war and civil disturbance or as a result of business interruption caused by covered events.

BREACH OF CONTRACT

Protects against losses arising from the host government's breach or repudiation of a contract with the investor. In the event of an alleged breach or repudiation, the investor must be able to invoke a dispute resolution mechanism (e.g., an arbitration) set out in the underlying contract and obtain an award for damages. If, after a specified period of time, the investor has not received payment or if the dispute resolution mechanism fails to function due to host government actions, MIGA will pay compensation. MIGA may make a provisional payment pending the outcome of the dispute resolution mechanism.

The coverages described may be purchased individually or in combination, but selection of the desired coverages must be made by an investor before MIGA issues its guarantee.

What Are the Terms of Coverage?

PRICING

MIGA prices to risk, and premium rates are decided on a per project basis, usually ranging between 30 and 100 basis points per risk (up to 150 in some cases) per year. Premiums are paid at the beginning of each contract period.

DURATION OF GUARANTEE

MIGA provides coverage for up to 15 years (and possibly 20 years if justified by the nature of the project). MIGA cannot terminate the contract unless the guarantee holder defaults on its contractual obligations to MIGA, but the guarantee holder may reduce or cancel coverage on any contract anniversary date starting with the third.

AMOUNT OF COVERAGE

For equity investments, MIGA may guarantee up to 90 percent of the investment, plus up to an additional 450 percent of the investment contribution to cover earnings attributable to the investment. For loans and loan guarantees, the agency generally offers up to 95 percent of the principal (or higher as determined on a case-by-case basis), plus up to an additional 135 percent of the principal to cover interest that accrues over the term of the loan. For technical assistance contracts and other contractual agreements, MIGA may insure up to 90 percent of the total value of payments due under the insured agreement (up to 95 percent in exceptional circumstances).

Regardless of the nature of the project, an investor is required to remain at risk for a portion of any loss for debt and equity. MIGA can currently issue up to US\$200 million of coverage (including amounts obtained through treaty reinsurance) on its own for a single project. The agency can, however, arrange additional coverage through its reinsurance and coinsurance programs with other

political risk insurers, including through its Cooperative Underwriting Program, a form of coinsurance in which MIGA is the insurer-of-record among participating underwriters.

How to Apply

Applicants seeking MIGA coverage should submit a confidential preliminary application before the investment is irrevocably committed. There is no fee charged. Once investment and financing plans are established, applicants submit a definitive application along with any relevant project documentation. A fee is charged for the definitive application.

Please submit all applications to:
Application Office
Mail Stop U12-1205
1818 H St., NW
Washington, DC 20433
USA

f. 1. 202.522.2630

Please submit all inquiries to:
Corporate Relations Group
t. 1.202.458.9292
f. 1.202.522.2630
migainquiry@worldbank.org

Multilateral Investment Guarantee Agency
1818 H Street, NW
Washington, DC 20433
USA

 World Bank Group

www.miga.org

PRELIMINARY APPLICATION FOR GUARANTEE

In order for MIGA to process this application, all fields must be completed upon submission.

INVESTOR INFORMATION

Investor's name _____

Investor's contact _____

Investor's address _____

Telephone _____

Fax _____

Email _____

INVESTMENT INFORMATION

If majority public owned, does the company operate on a commercial basis? Yes No

Investor country _____

Host country (Where project is located) _____

Name of project _____

Brief description of project (Industry/sector) _____

Estimated total cost of project (US\$) _____

Estimated amount of investment (US\$) _____

Types of investment for which cover is requested.

- Equity Shareholder loan Non-shareholder loan (please see next page)
 Loan guarantee Other _____

Is this application related to a prior guarantee issued by MIGA or to another application filed with MIGA?

- Yes No

(If yes, please provide details - contract number or registration number)

Date of commitment to invest _____

BROKER OR INVESTOR REPRESENTATIVE INFORMATION (IF ANY)

Name and Title _____

Address _____

Telephone _____

Fax _____

Email _____

How did you hear about MIGA?

- MIGA News Insurance Broker Magazine Article Conference
 Investment Insurer Host Government Official Investor Government Official WBG Official
 MIGA's web site Other _____

Signature _____

Date _____

The purpose of this application is to ensure that the investment is registered with MIGA before it is made or irrevocably committed. Upon acceptance, a Notice of Registration will be issued. This notice does not constitute a commitment either by MIGA to offer a guarantee or by the applicant to accept such a guarantee. MIGA will treat all information contained in this application as confidential, and will not disclose it outside the agency except with the applicant's consent.

ELIGIBLE INVESTMENTS

The following is a summary of MIGA's rules on eligibility pertaining to investments and applicants. Other types of investments might qualify for MIGA's coverage.

1. New Investments

- Cross-border investments originating in any member country and destined for any developing member country.
- Investment contributions associated with the expansion, modernization, or financial restructuring of existing projects.
- Acquisitions involving privatization of state enterprises.

2. Form of Investments

- Equity interests.
- Shareholder loans made and loan guarantees issued by equity holders, which must have a term of at least three years.
- Non-shareholder loans, provided an eligible investment is covered or will be covered by MIGA. In this respect, MIGA should receive an application from an eligible investor in the project before or at the time when the application for the non-shareholder loan is filed.
- Other investments such as technical assistance, management contracts, franchising and licensing agreements as long as the remuneration of the investor depends on the revenues or production of the investment project and such form of investment has a term of at least three years.

3. Eligible Applicants

- Nationals of a member country other than the country in which the investment is to be made (host country).
- Juridical persons if they are either incorporated in and have their principal place of business in a member country or if they are majority-owned by nationals of member countries.
- State-owned corporations if they operate on a commercial basis.
- Nationals of the host country or juridical persons incorporated in said host country or whose capital is majority-owned by its nationals, provided that the invested assets are transferred from outside the host country.

FOR MORE DETAILS on MIGA's activities, including its member countries, contact the MIGA Business Development Officer at migainquiry@worldbank.org or visit www.miga.org.

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